

Azerbaijan Micro-Finance Association

Financial Statements and Auditors' Report
For the Year Ended 31 December 2008

AZERBAIJAN MICRO-FINANCE ASSOCIATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Azerbaijan Micro-finance Association:

Report on the Financial Statements

We have audited the accompanying financial statements of Azerbaijan Micro-Finance Association (the "Association"), which comprise the Statement of Financial Position as at 31 December 2008, and the Statement of Income, Statement of Changes in Equity and Cash Flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing ("ISA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of Azerbaijan Micro-Finance Association as at 31 December 2008, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Baku, Azerbaijan
15 May, 2009

Kapital Karden
member firm of RSM International

AZERBAIJAN MICRO-FINANCE ASSOCIATION

**STATEMENT OF FINANCIAL POSITION
FOR THE PERIOD ENDED 31 DECEMBER 2008**

(in Azerbaijani Manats)

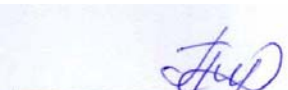
	Notes	31 December 2008	31 December 2007 (un-audited)
ASSETS:			
Cash and cash equivalents	10	30,427	36,262
Accounts receivable	11	4,468	6,164
Property and equipment	12	5,701	1,552
Other assets		2,716	128
TOTAL ASSETS		43,312	44,106
LIABILITIES AND EQUITY			
LIABILITIES:			
Unused grants	13	13,968	37,075
Accounts payable	14	9,925	2,003
Deferred revenue	15	7,864	-
Total liabilities		31,757	39,078
EQUITY:			
Retained earnings		11,555	5,028
TOTAL EQUITY		11,555	5,028
TOTAL LIABILITIES AND EQUITY		43,312	44,106

On behalf of the management:


Jhale Hajiyeva
Executive director

15 May, 2009

Baku, Azerbaijan


Nigar Pirmammadova
Finance manager

15 May, 2009

Baku, Azerbaijan

The notes on pages 8-25 form an integral part of these financial statements. The Independent Auditors' Report is on page 3.

AZERBAIJAN MICRO-FINANCE ASSOCIATION

**STATEMENT OF INCOME
FOR THE PERIOD ENDED 31 DECEMBER 2008**
(in Azerbaijani Manats)

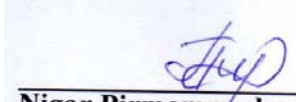
	Notes	Year ended 31 December 2008	Year ended 31 December 2007 (un-audited)
Revenue			
Membership fees	4	39,000	22,735
Training, courses & conferences income	5	167,533	20,675
Grant revenue	6	<u>150,418</u>	<u>18,690</u>
Total revenue		356,951	62,100
Costs			
Costs of grant-funded programs	6	(150,418)	(18,690)
Other operational costs	7	<u>(105,866)</u>	<u>(7,453)</u>
Total costs		(256,284)	(26,143)
GROSS INCOME		<u>100,667</u>	<u>35,957</u>
Other revenue	8	1,004	6,259
Administrative costs	9	<u>(95,144)</u>	<u>(39,320)</u>
NET INCOME FOR THE YEAR		<u><u>6,527</u></u>	<u><u>2,896</u></u>

On behalf of the management:


Jhale Hajiyeva
Executive director

15 May, 2009

Baku, Azerbaijan


Nigar Pirmammadova
Finance manager

15 May, 2009

Baku, Azerbaijan

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AZERBAIJAN MICRO-FINANCE ASSOCIATION

**STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2008**

(in Azerbaijani Manats)

	Note	Retained Earnings
31 December 2006 (un-audited)		<u><u>2,132</u></u>
Net profit (un-audited)		<u>2,896</u>
31 December 2007 (un-audited)		<u><u>5,028</u></u>
Net profit		<u>6,527</u>
31 December 2008		<u><u>11,555</u></u>


On behalf of the management:



Jhale Hajiyeva
Executive director

15 May, 2009

Baku, Azerbaijan



Nigar Pirmammadova
Finance manager

15 May, 2009

Baku, Azerbaijan

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AZERBAIJAN MICRO-FINANCE ASSOCIATION

**STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 DECEMBER 2008**
(in Azerbaijani Manats)


	Notes	Year ended 31 December 2008	Year ended 31 December 2007 (un-audited)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		6,527	2,896
Adjustments for:			
Allowance for bad debt	11	8,493	
Depreciation and amortization expense	12	<u>695</u>	<u>517</u>
Cash flows from operating activities before changes in operating assets and liabilities		15,715	3,413
Changes in operating assets and liabilities (Increase)/decrease in operating assets:			
Account receivables	11	(6,797)	-
Other assets		(2,588)	2,841
Increase/(decrease) in operating liabilities			
Account payables	14	7,922	(4,602)
Grants received/used	13	(23,107)	35,879
Deferred revenue (non-grant activity)	15	3,375	-
Other liabilities		<u>-</u>	<u>(3,698)</u>
Cash inflow/(outflow) from operating activities before taxation		(5,480)	33,833
Income tax paid		-	-
Net cash inflow/(outflow) from operating activities		<u>(5,480)</u>	<u>33,833</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	12	(355)	-
Net cash inflow/(outflow) from investing activities		<u>(355)</u>	<u>-</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(5,835)	33,833
CASH AND CASH EQUIVALENTS, beginning of year	10	36,262	2,429
CASH AND CASH EQUIVALENTS, end of year	10	30,427	36,262

On behalf of the management:


Jhale Hajiyeva
Executive director

15 May, 2009

Baku, Azerbaijan


Nigar Pirmammadova
Finance manager

15 May, 2009

Baku, Azerbaijan

The notes on pages 8-25 form an integral part of these financial statements. The Independent Auditors' Report is on page 3.

AZERBAIJAN MICRO-FINANCE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2008

(in Azerbaijani Manats)

1. INTRODUCTION

Association and its principal activity

Azerbaijan Microfinance Association public union was registered with the Ministry of Justice of the Azerbaijan Republic on November 29th, 2004 and, consequently, received the registration certificate No. 1104-Г3-1639 on December 8th, 2004. It was recorded under No. 11/21 in the state register of non-commercial organizations of the same ministry of January 5th, 2005.

The founders of the Association are the following 11 (eleven) corporate persons (as indicated in the minutes #1 of the General Assembly of Member dated July 20th, 2004):

1. Mercy Corps International, Baku, Azerbaijan (discontinued its membership in 2008);
2. ADRA Credit LLC (discontinued its membership in 2008);
3. Norwegian Microcredit LLC;
4. CredAgro LLC;
5. Finance for Development LLC;
6. WV Azercredit LLC (renamed to Vision Fund Azercredit LLC);
7. AzeriStar Microfinance LLC;
8. Viator Microcredit LLC;
9. FINCA Azerbaijan LLC;
10. Access Bank CJSC;
11. Shore Overseas Azerbaijan LLC (renamed to TBC Credit).

In accordance with the Azerbaijan Republic law non-government organizations (institutions and funds), the Association didn't form its authorized capital, but, following the corresponding decision by the founders, fixed an annual membership fee in the amount of 1500 AZN in order to keep its activities going. In the meantime, in accordance with the respective decisions of the General Assembly the list of new members is as follows:

- Nakhchivan Microcredit LLC;
- Caucasus Credit LLC;
- Agrar Credit LLC;
- Agroinvest Credit Union;
- Umid Credit LLC;
- Dayag Credit LLC;
- Turan Bank;
- Technika Bank;
- Unibank OJSC
- Royal Bank of Baku OJSC;
- Azerdemiryol bank OJSC;
- Bank of Azerbaijan OJSC;
- Azerbaijan Credit Bank OJSC;
- Parabank OJSC
- Bank Respublika OJSC;
- "Invest Credit" MFA;
- SBFIC (Savings Banks Foundation for International Cooperation)

At the end of the audit-covered period the Association had a total of 26 (twenty six) members, including nine founding members.

On February 1st, 2005, the Association was registered with the State Statistics Committee of the Azerbaijan Republic and, and, consequently, received the certificate No. 0085494.

AZERBAIJAN MICRO-FINANCE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2008

(in Azerbaijani Manats)

1. INTRODUCTION (Continued)

On January 28th, 2005, The Association was registered with, and, consequently was issued the registration No. 09-02874 by the Binagadi District Department of the State Social Protection Fund.

At present the Association has registration with the SPPF's Department for the Affairs with Legal Persons in Baku and submits relevant reports to this department.

On June 19th, 2006, the Association was registered with, issued the registration No. 2550 by and, consequently, on March 29th, 2005, received a taxpayer's registration certificate and was issued the taxpayer's identification number (TPIN) 1000440631.

Organizational strategy and targets of the Association

The microfinance industry within Azerbaijan is growing by leaps and bounds, and this is characterized by the large influx of capital from foreign investors into the Azerbaijani market place.

The role of Association is to support its members in understanding this environment, and bringing structure to the overall microfinance industry. Azerbaijani Micro finance Association is a member-only organization that is focused on strengthening the capacity of its member MFIs and promoting effective collective action in advancing the interests of the micro-finance community within Azerbaijan. AMFA was established in 2004 has grown to 26 member MFIs.

Associations' organizational strategy is to establish the Association as a self-sustaining organization, through its 3 strategic pillars strategy. The basis of Association's strategic pillars is closely tied to growing its unrestricted revenues, through innovative products and services, strategic partnerships and to being viewed as the organization with micro finance industry expertise.

It is an industry leading organization that has expertise in serving the needs its membership, with a particular strategic focus on the medium and large MFIs. Association is guided by its 3 strategic pillars, which are:

- developing innovative microfinance products and services,
- continually educating its members on best practices,
- developing microfinance expertise within Azerbaijan.

Association achieves its strategic initiatives through developing key strategic partnerships with both non-profit and commercial organizations, with a focus on self-sustainability through innovative product and service offerings.

Operating environment of the Association

Azerbaijan economy is largely dependent on oil prices and all sectors of the economy might be affected by fluctuations in oil prices. Recent fall in oil prices, which occurred during the second half of year 2008, may damage the general development trend of the economy.

In recent months financial market conditions have been characterized by significant trading difficulties compounded by a reduction in liquidity. Although the primary market shock arose due to defaults on sub-prime mortgages in the United States, the effect has been felt globally due to widespread use of structured securities and leveraged funding. Entities with exposure to the financial market through debt, equity, derivative and leveraged finance activities may experience significant difficulty in financing their operations a result of restricted credit facilities.

AZERBAIJAN MICRO-FINANCE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2008

(in Azerbaijani Manats)

1. INTRODUCTION (Continued)

Since all the founders of the Association are bank and non bank credit organizations, the primary aim of creating it was to strengthen the capacity of microfinance institutions in Azerbaijan, as well as to protect the interests of the microfinance community, to further best practices and promote the sustainable development of in the field of microfinance, to ensure transparency and accountability with respect to the provision of microfinance services, and to support the advocacy of the effective joint action.

Furthermore, revenue generation of the association is closely related to the financial capabilities of the banks and microfinance institutions. The microfinance sector is also sensitive to adverse fluctuations in confidence and economic conditions. Management is unable to predict economic trends and developments in the banking sector and what effect, if any, a deterioration in the liquidity of or confidence in the Azerbaijani Banking system could have on the financial position of the Association.

The tax, currency and customs legislation within the Azerbaijan Republic is subject to varying interpretations and changes which can occur frequently. The association is exempt from the profit tax as per the tax legislation in force. The management is unable to predict future effects of the possible changes in the interpretations of the tax codes.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

These financial statements have been prepared on a going concern basis in accordance with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) in force at 31 December 2008 as well as all interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) in force at 31 December 2008.

These financial statements are presented in Azerbaijani manats (“AZN”), unless otherwise indicated. These financial statements have been prepared under the historical cost convention. The functional currency of the Association is also the Azerbaijani manat as the business activities are conducted in the Republic of Azerbaijan. The Association maintains its accounting records in accordance with laws of the Republic of Azerbaijan. These financial statements have been prepared from the statutory accounting records and have been adjusted to confirm with IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

For the preparation of these financial statements the following new standards and interpretations became mandatorily applicable and were not early adopted last year:

- IAS 39: Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures “Reclassification of Financial Assets (as revised in 2008) (This amendment is effective 1 July 2008. It permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. Moreover, this amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future. An entity shall apply those amendments from 1 July 2008)

AZERBAIJAN MICRO-FINANCE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2008

(in Azerbaijani Manats)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

- IFRIC 11: IFRS 2 - Group and Treasury Share Transactions (issued in 2006) (This interpretation is mandatory for annual periods beginning on or after 1 March 2007. The Group accounts for share-based payment transactions. The first-time application of this interpretation did not modify significantly how share-based payment transactions are reported)
- IFRIC 12: Service Concession Arrangements (issued in 2006) (This interpretation is mandatory for annual periods beginning on or after 1 January 2008. Topics covered by this interpretation are not relevant for the preparation of this set of IFRS financial statements)
- IFRIC 14: IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (issued in 2007) (This interpretation is mandatory for annual periods beginning on or after 1 January 2008. This interpretation addresses (a) when refunds or reductions in future contributions should be regarded as available, (b) how a minimum funding requirement might affect the availability of reductions in future contributions and (c) when a minimum funding requirement might give rise to a liability. This interpretation does not affect the measurement of the pension schemes of the Association)

For the avoidance of doubt, the following standards and interpretations, which were issued by IASB and IFRIC before 31 December 2008 and are not yet in effect, have not been adopted early:

- IFRS 8: Operating Segments (issued in 2007) (This standard is mandatory for annual periods beginning on or after 1 January 2009. This standard replaces IAS 14 - Segment Reporting and will affect how segment information will be presented and disclosed in annual and interim financial statements. According to IFRS 8, segmental information presented in the financial statements that will be issued during 2009 is consistent with information that is provided and utilised by the management of the Association. It will not affect the measurement attributes of assets and liabilities)
- IAS 1: Presentation of Financial Statements (as revised in 2007) (This standard is mandatory for annual periods beginning on or after 1 January 2009. In substance these amendments to IAS 1 will modify how reporting income and changes in shareholder's equity will be presented. These amendments to IAS 1 will not affect the measurement attributes of assets and liabilities)
- IAS 23: Borrowing Costs (as revised in 2007) (This standard is mandatory for annual periods beginning on or after 1 January 2009. In substance these amendments to IAS 23 remove the option of immediate recognition of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as an expense. The current version of IAS allows IFRS preparers to either expense or capitalise such borrowing costs. Currently, the accounting policy selected by the Association is to capitalise such borrowing costs. As a result, the Association does not foresee that the application of these amendments will result in a significant impact on figures and disclosures on the reporting period they will be adopted)
- IAS 27: Consolidated and separate financial statements, (as revised in 2008) (This amendment is mandatory for annual periods beginning on or after 1 July 2009 and is part of the so called Business Combinations Phase II. The modifications introduced relate primarily to the accounting for minority interests, which have been renamed "non-controlling interests")

AZERBAIJAN MICRO-FINANCE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2008

(in Azerbaijani Manats)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

- IAS 32: Financial instruments: Presentation and IAS 1: Presentation of financial statements (as revised in 2008) (These amendments are mandatory for annual periods beginning on or after 1 January 2009 and they deal with puttable financial instruments and obligations arising on liquidation. The amendment addresses the classification of some puttable financial instruments, and other instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation)
- IAS 39 Financial Instruments: Recognition and Measurement (as revised in 2008) (This amendment is mandatory for annual periods beginning on or after 1 July 2009. It relates to Eligible Hedged Items, and clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations)
- IFRS 1: First time adoption of IFRS and IAS 27: Consolidated and separate financial statements (as revised in 2008) (This amendment is mandatory for annual periods beginning on or after 1 January 2009. This amendment permits first-time adopters of IFRS to resolve some practical difficulties on transition to IFRS and relates to the accounting for investments in subsidiaries, jointly controlled entities and associates either at cost or in accordance with IAS 39 in their separate financial statements)
- IFRS 2: Share-based payment (as revised in 2008) (This standard is mandatory for annual periods beginning on or after 1 January 2009 and provides some clarifications with regard to vesting conditions and cancellations)
- IFRS 3: Business combinations (as revised in 2008) (This amendment is mandatory for annual periods beginning on or after 1 July 2009 and is part of the so-called Business Combinations Phase II. This project has introduced significant modifications on how business combinations will be accounted for. Amongst others, a major change relates to the introduction of the “Full-Goodwill approach” which will allow entities to recognise the entire value of the goodwill regardless of the percentage of ownership)
- IASB’s annual improvements project (revisions to various standards issued in 2008) (The effective date varies depending on the amendment, but in any case is not before 1 January 2009. The annual improvements project provides a vehicle for making non-urgent but necessary amendments to IFRS and involves various IFRS. These amendments are divided in two macro categories: 1) amendments that result in accounting changes for presentation, recognition or measurement purposes and 2) amendments to terminology or editorial changes only, which should have no or minimal effect on accounting. Standards affected included in category 1 are the following: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IAS 1 Presentation of Financial Statements, IAS 16 Property, Plant and Equipment, IAS 19 Employee Benefits, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, IAS 23 Borrowing Costs, IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures, IAS 29 Financial Reporting in Hyperinflationary Economies, IAS 36 Impairment of Assets, IAS 38 Intangible Assets, IAS 39 Financial Instruments: Recognition and Measurement, IAS 40 Investment Property, IAS 41 Agriculture. Standards affected included in category 2 are the following IFRS 7 Financial Instruments: Disclosures, IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, IAS 10 Events after the Reporting Period, IAS 18 Revenue, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, IAS 29 Financial Reporting in Hyperinflationary Economies, IAS 34 Interim Financial Reporting, IAS 40 Investment Property, IAS 41 Agriculture)
- IFRIC 13: Customer Loyalty Programmes (issued in 2007) (This interpretation is mandatory for annual periods beginning on or after 1 July 2008. Topics covered by this interpretation are not relevant for the preparation of this set of IFRS financial statements)

AZERBAIJAN MICRO-FINANCE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2008

(in Azerbaijani Manats)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

- IFRIC 15: Agreements for construction of real estates (issued in 2008) (This interpretation is mandatory for annual periods beginning on or after 1 January 2009 and applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors.)
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (issued in 2008) (This interpretation is mandatory for annual periods beginning on or after 1 October 2008 and applies to entities that hedge the foreign currency risk arising from its net investments in foreign operations and wish to qualify for hedge accounting in accordance with IAS 39. In particular, this Interpretation refers to such an entity as a parent entity and to the financial statements in which the net assets of foreign operations are included as consolidated financial statements)

Regardless of when the application of the standards and interpretations above will be mandatory, the Association is planning to adopt all of them in the financial statements for the year ended 31 December 2009, if they are then relevant to the Association.

The Association has assessed the potential impact of all new standards, amendments and interpretations that will be effective in the next periods and expects that they will not have a significant impact on transactions that are in place at 31 December 2008.

SIGNIFICANT ACCOUNTING POLICIES

Key recognition and measurement terms

Segment reporting

A segment is a distinguishable component of the Association that is engaged in providing services (business segment) or in providing services within a particular economic environment (geographical segment), and which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from providing services to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Association have been reported separately within these financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried at amortized cost.

Account receivable

Account receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets that the Association intends to sell immediately or in the near term cannot be classified in this category. These assets are carried at amortized cost using the effective interest method minus any reduction for impairment or uncollectibility. Impairment charges are provided only when there is objective evidence that an impairment loss has been incurred. If that is the case, the carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognized in the income statement.

AZERBAIJAN MICRO-FINANCE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2008

(in Azerbaijani Manats)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Property and equipment

Property and equipment are carried at historical cost less accumulated depreciation and any recognized impairment loss, if any. Depreciation is charged on the carrying value of property and equipment and is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual prescribed rates:

Descriptions	%
Furniture and Fixtures	20%
Computer equipment	25%

The carrying amounts of property and equipment are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount.

Unused grants

Grants are recognized when related expenditures are incurred with considering the conditions for receipt are met and there is reasonable assurance that the grant will be received. Grants related to liabilities are initially taken to unused grants and then released to the income statement over the same period that the Association benefits from the expenditure to which they relate. Grants are used as per the approved budget.

Accounts payables

Accounts payables are accrued when the counterparty performed its obligations under the contract and are carried at historical cost and subsequently measures it at amortized cost, using the effective rate.

Deferred revenue

Deferred revenue is accrued when the Association performed its obligations under the contract and is carried at historical cost.

Rates of exchange

The exchange rates at the year-end used by the Association in the preparation of the financial statements are as follows:

	31 December 2008	31 December 2007
AZN/1 US Dollar	0.8010	0.8453

Most significant accounting estimates and judgments

In preparing its financial statements in conformity with International Financial Reporting Standards the Association has made significant judgments, estimates and assumptions that impact on the carrying value of certain assets and liabilities, income and expenses as well as other information reported in the notes. The Association periodically monitors such estimates and assumptions and make sure they incorporate all relevant information available at the date when financial statements are prepared. However, this does not prevent actual figures differing from estimates.

AZERBAIJAN MICRO-FINANCE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2008 (in Azerbaijani Manats)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Key judgments, estimates and assumptions are subject to management approval.

At the balance sheet date management has made the following key judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the financial statements:

Revenue recognition

Revenue from the services and grants received is recognized in the income statement on the date that services and expenses for the grants are incurred.

Allowance for bad debts

The determination of the recoverability of the amount due from customers (members) involves the identification of whether there is any objective evidence of impairment. Bad debts are written off when identified. To the extent that it is feasible impairment and uncollectibility is determined individually for each item. In cases where that process is not feasible, a collective evaluation of impairment is performed. As a consequence, the way individual and collective evaluation is carried out and the timing relating to the identification of objective evidence of impairment require significant judgment and may materially affect the carrying amount of receivables at the balance sheet date.

Contingencies

Contingent liabilities incurred by the Association are not recognized but disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent liabilities represent possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity and are not recognized because it is not probable that an outflow of resources will be required to settle the obligation. Moreover, the amount of the obligation cannot be measured with sufficient reliability.

Inevitably, the determination that the possibility that an outflow of resources embodying economic benefits is remote and that the occurrence or non-occurrence of one or more uncertain future events is not wholly within the control of the Association requires significant judgment.

3. SEGMENTAL ANALYSIS

Primary analysis by business segment

For management purposes the association is organized into two major operating divisions: grant, non-grant.

The following tables presents details of revenue and operating profit by business segment as well as a reconciliation between the information disclosed for reportable segments and the aggregated information in the financial statements.

AZERBAIJAN MICRO-FINANCE ASSOCIATION

**NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2008**
(in Azerbaijani Manats)

3. SEGMENTAL ANALYSIS (Continued)

For the year ended 31 December 2008

	GRANT	NON-GRANT	UN- ALLOCATED	TOTAL
Revenue by segments				
Membership fees	-	39,000	-	39,000
Training, courses & conferences income	-	167,533	-	167,533
Grant revenue	<u>150,418</u>	<u>-</u>	<u>-</u>	<u>150,418</u>
Total revenue by segments	150,418	206,533	-	356,951
Costs				
Costs of grant-funded programs	(150,418)	-	-	(150,418)
Operating costs	<u>-</u>	<u>(105,866)</u>	<u>-</u>	<u>(105,866)</u>
TOTAL COSTS BY SEGMENTS	(150,418)	(105,866)	-	(256,284)
GROSS INCOME BY SEGMENTS	-	100,667	-	100,667
Other revenue	-	-	1,004	1,004
Administrative costs	<u>-</u>	<u>-</u>	<u>(95,144)</u>	<u>(95,144)</u>
NET INCOME/(LOSS) FOR THE YEAR	-	100,667	(94,140)	6,527
Cash and cash equivalents	10,911	19,516	-	30,427
Accounts receivable	<u>3,057</u>	<u>1,411</u>	<u>-</u>	<u>4,468</u>
Total segment assets	13,968	20,927	-	34,895
Property and equipment	-	-	5,701	5,701
Other assets	<u>-</u>	<u>-</u>	<u>2,716</u>	<u>2,716</u>
TOTAL ASSETS	13,968	20,927	8,417	43,312
Unused grants	13,968			13,968
Deferred revenue	<u>-</u>	<u>4,514</u>	<u>3,350</u>	<u>7,864</u>
Total segment liabilities	13,968	4,514	3,350	21,832
Accounts payable	-	-	9,925	9,925
TOTAL LIABILITIES	13,968	4,514	13,275	31,757

AZERBAIJAN MICRO-FINANCE ASSOCIATION

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3. SEGMENTAL ANALYSIS (Continued)

For the year ended 31 December 2007 (un-audited)

	GRANT	NON-GRANT	UN- ALLOCATED	TOTAL
Revenue by segments				
Membership fees	-	22,735	-	22,735
Training, courses & conferences income	-	20,675	-	20,675
Grant revenue	<u>18,690</u>	<u>-</u>	<u>-</u>	<u>18,690</u>
Total revenue by segments	18,690	43,410	-	62,100
Costs by segments				
Costs of grant-funded programs	(18,690)	-	-	(18,690)
Operating costs	<u>-</u>	<u>(7,453)</u>	<u>-</u>	<u>(7,453)</u>
TOTAL COSTS BY SEGMENTS	(18,690)	(7,453)	-	(26,143)
GROSS INCOME BY SEGMENTS	<u>-</u>	<u>35,957</u>	<u>-</u>	<u>35,957</u>
Other revenue	-	-	6,259	6,259
Administrative Costs	<u>-</u>	<u>-</u>	<u>(39,320)</u>	<u>(39,320)</u>
NET INCOME/(LOSS) FOR THE YEAR	<u>-</u>	<u>35,957</u>	<u>(33,061)</u>	<u>2,896</u>
Cash and cash equivalents	34,653	1,609	-	36,262
Accounts receivable	<u>2,422</u>	<u>3,742</u>	<u>-</u>	<u>6,164</u>
Total segment assets	37,075	5,351	-	42,426
Property and equipment	-	-	1,552	1,552
Other assets	-	-	128	128
TOTAL ASSETS	<u>37,075</u>	<u>5,351</u>	<u>1,680</u>	<u>44,106</u>
Unused Grants	37,075	-	-	37,075
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total segment liabilities	37,075	-	-	37,075
Accounts payable			2,003	2,003
TOTAL LIABILITIES	<u>37,075</u>	<u>-</u>	<u>2,003</u>	<u>39,078</u>

AZERBAIJAN MICRO-FINANCE ASSOCIATION

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4. MEMBERSHIP FEES

	Year ended 31 December 2008	Year ended 31 December 2007 (un-audited)
Membership fees	<u>39,000</u>	<u>22,735</u>
TOTAL membership fees	<u>39,000</u>	<u>22,735</u>

The membership fee is AZN 1500 and AZN 1000 for the years ended December 31, 2008 and December 31, 2007 respectively. The number of the members of the Association is 26 and 22 for the years ended December 31, 2008 and December 31, 2007 respectively.

5. TRAINING, COURSES & CONFERENCES INCOME

	Year ended 31 December 2008	Year ended 31 December 2007 (un-audited)
Training, courses & conferences income		
Trainings fee	73,252	19,925
Revenue from 4th AMFA Conference	72,982	-
CIPA courses	16,274	-
Revenue from AMFA Award Dinner	<u>5,025</u>	<u>750</u>
TOTAL training, courses & conferences income	<u>167,533</u>	<u>20,675</u>

During the audited period, the Azerbaijan Micro-finance Association public union made AZN 73,252 in training and membership fees, AZN 72,982 in organizing conferences and an additional AZN 21,299 from other sources.

6. GRANT REVENUE AND COSTS OF GRANT-FUNDED PROGRAMS

	Year ended 31 December 2008	Year ended 31 December 2007 (un-audited)
Grant revenue		
Social Performance Management (ICCO grant)	66,318	185
Social Impact Assessment - ACIDI-VOCA part	33,867	-
Social Impact Assessment - BP part	27,389	-
A / V Institutional Development (ACDI/VOCA)	11,249	12,182
CAP Grant	10,255	-
SEEP Grant	1,340	1,149
Benchmarking project	-	4,931
Gender project (ADB)	<u>-</u>	<u>243</u>
TOTAL grant revenue	<u>150,418</u>	<u>18,690</u>

AZERBAIJAN MICRO-FINANCE ASSOCIATION

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6. GRANT REVENUE AND COSTS OF GRANT-FUNDED PROGRAMS (Continued)

	Year ended 31 December 2008	Year ended 31 December 2007 (un-audited)
Costs of grant-funded programs		
Social Performance Management (ICCO grant)	66,318	185
Social Impact Assessment – ACIDI-VOCA part	33,867	-
Social Impact Assessment - BP part	27,389	-
A / V Institutional Development (ACDI/VOCA)	11,249	12,182
CAP Grant	10,255	-
SEEP Grant	1,340	1,149
Benchmarking project	-	4,931
Gender project (ADB)	-	243
TOTAL costs of grant-funded programs	150,418	18,690
Net income from grants	-	-

Costs of grant-funded programs for the year 2008 constitute as below:

Expenses name	AV		SEEP	CIPA	SPM	TOTAL
	SIA	Institutional Development				
Salaries and benefits	18,580	378	-	5,649	17,317	41,924
Rent expense	2,701	-	-	700	1,800	5,201
Training expense	-	2,711	-	2,130	-	4,841
CAP project expense	-	-	-	1,632	-	1,632
AMFA Award Dinner	-	1,020	-	-	-	1,020
Communication	465	-	-	124	528	1,117
Translation expense	1,410	-	-	-	-	1,410
Transportation expense	575	-	-	-	1,383	1,958
Internet	20	-	-	-	451	471
Business trip	1,354	5,140	1,340	-	2,131	9,965
Bank commissions	80	-	-	-	504	584
Curier YAPS	13	-	-	20	129	162
Matrix web-design	-	2,000	-	-	-	2,000
Stationery	222	-	-	-	736	958
Printing expenses	998	-	-	-	150	1,148
AMFA Strategic Plan	-	-	-	-	6,500	6,500
Other expenses	5,752	-	-	-	1,071	6,823
ICCO project expenses	-	-	-	-	33,618	33,618
Sub Contract 50% advance	29,086	-	-	-	-	29,086
	61,256	11,249	1,340	10,255	66,318	150,418

AZERBAIJAN MICRO-FINANCE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2008 (in Azerbaijani Manats)

7. OTHER OPERATIONAL COSTS

Other operational costs comprise of the following items:

	Year ended 31 December 2008	Year ended 31 December 2007 (un-audited)
Training expense	53,777	7,436
4 th AMFA MF Conference	39,447	17
CAP project expense	7,215	-
AMFA Award Dinner	5,427	-
	<hr/>	<hr/>
Total other operational costs	105,866	7,453

8. OTHER REVENUE

	Year ended 31 December 2008	Year ended 31 December 2007 (un-audited)
Other revenue		
Donations	415	100
Other	589	6,159
	<hr/>	<hr/>
Total other revenue	1,004	6,259

9. ADMINISTRATIVE COSTS

Administrative costs comprise of the following items:

	Year ended 31 December 2008	Year ended 31 December 2007 (un-audited)
Salaries and benefits	43,595	24,499
Business trip	10,493	1,698
Audit	10,000	531
Transportation expense	4,517	-
Printing expenses	4,066	-
Rent expense	3,367	4,099
Stationery	1,415	836
Communication	1,382	841
Administrative expense	1,449	768
Bank commissions	1,288	475
Amortization	695	517
AMFA Strategic Plan	1,199	-
Internet	889	684
Courier YAPS	660	131
MFC/EMP membership fees	478	-
Loss on fixed assets revaluation	93	-
Translation expense	-	3,057
Matrix Web design	-	400
Other expenses	9,558	784
	<hr/>	<hr/>
Total administrative costs	95,144	39,320

AZERBAIJAN MICRO-FINANCE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2008

(in Azerbaijani Manats)

9. ADMINISTRATIVE COSTS (Continued)

Administrative costs are defined as overhead expenses that are not directly related to the grants. Thus, abovementioned table comprises only non-grant expenses.

On average, the Azerbaijan Micro-finance Association public union employed the staff of 7 (seven) persons (including those engaged under civil agreements). As of 31.12.2007, the Association had no debt to its employees. During the year, a total of AZN 85,519 was calculated and AZN 85,519 paid as a staff salary. Thus, as of 31.12.2008, the Association didn't have any wages payable to its employees.

It should be noted that in accordance with letter No. 27/1-238, dated September 10, 2007 signed by Mr A. Hasanov, the deputy Prime-Minister of the Azerbaijan Republic and the Chairman of the State Commission for International Humanitarian Assistance, while calculating the salary of its staff the Association doesn't impose a 22-percent levy as a social contribution, to be deducted from the salary calculated by the employer as prescribed by the corresponding law on social insurance. In the respective letter, the Azerbaijani Microfinance Association has been included in the list of the international and local humanitarian organizations which have been made exempted from a 22%-percent compulsory social contribution imposed on the salary calculated by the employer.

10. CASH AND CASH EQUIVALENTS

	31 December 2008	31 December 2007 (un-audited)
Cash on hand in national currency	1,587	241
Cash in bank in national currency	9,944	35,241
Cash in bank in foreign currency (USD)	18,896	780
Total cash and cash equivalents	30,427	36,262

11. ACCOUNT RECEIVABLES

Account receivables comprise:

	31 December 2008	31 December 2007 (un-audited)
Receivable from trainings	1,411	509
Receivable from members	8,493	3,233
Grant receivable	3,057	2,422
Less allowance for bad debts	(8,493)	-
Total account receivables	4,468	6,164

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12. PROPERTY AND EQUIPMENT

Property and equipment comprise:

	Furniture and Fixture	Computer and Communication equipment	Total
At initial cost			
31 December 2006 (un-audited)	-	3,591	3,591
Additions	-	-	-
31 December 2007 (un-audited)	-	3,591	3,591
Additions	277	78	355
Revaluation	1,842	2,647	4,489
31 December 2008	2,119	6,316	8,435
Accumulated depreciation			
31 December 2006 (un-audited)	-	1,522	1,522
Charge for the year	-	517	517
31 December 2007 (un-audited)	-	2,039	2,039
Charge for the year	111	584	695
31 December 2008	111	2,623	2,734
Net book value			
31 December 2007	-	1,552	1,552
31 December 2008	2,008	3,693	5,701

It should be noted that in 2007 the donor for the 2nd project (representation of ACDI/VOCA) provided the Association with the property and equipment in the amount of 16,140 manats required for the implementation of the project thereof. Those fixed assets have been revaluated after the receipt by the independent appraiser.

AZERBAIJAN MICRO-FINANCE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2008 (in Azerbaijani Manats)

13. UNUSED GRANTS

Unused grants comprise:

	31 December 2008	31 December 2007 (un-audited)
Social Performance Management (ICCO project)	13,968	37,075
Total unused grants	13,968	37,075

Total cash received and used grants are shown below:

	31 December 2008	31 December 2007 (un-audited)
Grants received	163,300	53,343
Expensed grants	(152,389)	(19,886)
Grants receivable as at the year end	3,057	2,422
Grants receivable as at beginning of the year	-	1,196
Total unused grants	13,968	37,075

14. ACCOUNTS PAYABLES

Accounts payables comprise:

	31 December 2008	31 December 2007 (un-audited)
Audit fee	8,000	-
Matrix Web design	1,925	2,000
Payable to staff	-	3
Total account payables	9,925	2,003

15. DEFERRED REVENUE

Deferred revenue comprises:

	31 December 2008	31 December 2007 (un-audited)
Granted fixed assets	4,489	-
Future period revenue (non-grant activity)	3,375	-
Total deferred revenue	7,864	-

AZERBAIJAN MICRO-FINANCE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2008

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16. COMMITMENTS AND CONTINGENCIES

Tax legislation. Azerbaijani tax legislation is subject to changing interpretations that can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Association may be challenged by the tax authorities.

The Association has organized international training and conferences related to the development of microfinance sector and generated revenues. Those activities are in compliance with goals and targets of the Association that is construed in the charter of the Association as well. According to the Tax Code of Azerbaijan, grants, membership fees and donations received by non-commercial organizations are exempt from the profit tax. However tax legislation doesn't specifically indicate that the activities described above are exempt from profit tax. The management of the Association believes that the activities of the Association are not for profit purposes and revenues generated from those activities are exempt from profit tax.

The Azerbaijani tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that revenues generated from those activities that have not been taxed in the past may be taxed.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. In management's estimate no losses are anticipated from these contingent liabilities.

17. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", represent:

- (a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Association (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Association that gives them significant influence over the Association; and that have joint control over the Association;
- (b) Associates – enterprises on which the Association has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) Joint ventures in which the Association is a venturer;
- (d) Members of key management personnel of the Association or its parent;
- (e) Close members of the family of any individuals referred to in (a) or (d);
- (f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) Post-employment benefit plans for the benefit of employees of the Association, or of any entity that is a related party of the Association.

AZERBAIJAN MICRO-FINANCE ASSOCIATION

**NOTES TO FINANCIAL STATEMENTS
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17. TRANSACTIONS WITH RELATED PARTIES (Continued)

	Year ended 31 December 2008		Year ended 31 December 2007 (un-audited)	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Membership fee		39,000		22,735
- <i>Founders of the entity</i>	12,000		9,735	
Training, courses & conferences income		167,533		20,675
- <i>Founders of the entity</i>	64,900		6,940	
Payroll and wages		43,595		24,499
- <i>Key management personnel</i>	26,773		15,162	